GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:978
ANSWERED ON:23.11.2007
DIFFERENTIAL RATE OF INTEREST
Tripathy Shri Braja Kishore

Will the Minister of FINANCE be pleased to state:

(a) whether the banks offered different rate of interest for depositors opted for lock in scheme;

(b) if so, whether Reserve Bank of India has issued any warning to all the banks in the country against interest indiscrimination;

(c) if so, the details thereof; and

(d) the action taken by the Government against the banks found violating such warnings?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a): Yes, Sir. The Reserve Bank of India (RBI) has given freedom to commercial banks with effect from 22nd October 1997 to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). As such, the rates of interest on deposits are determined by the banks themselves.
As reported by the RBI, it has been brought to the notice of the bank that some banks have been offering special term deposit products to customers, in addition to regular term deposits, with special feature such as lock-in periods, differential rates of interest, etc.

(b)to(d): Yes, Sir. RBI has issued a circular dated October 25, 2007 to the banks advising them that the special schemes, with lock-in periods and other features referred to in the above circular, which have been floated by some banks, are not in conformity with the RBI instructions. Banks, which have floated such deposit schemes, have been advised to discontinue the schemes with immediate effect and report compliance. Compliance of the instructions by the banks is being monitored by the RBI. A copy of circular is available at RBI website (www.rbi.org.in).